

Message Text

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ACTION EUR-12

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SUBJ: FINANCE MINISTER TURNER'S VIEWS ON FOREIGN INVESTMENT

REF: OTTAWA 1843

1. IN SEEKING TO CONFIRM FINANCE MINISTER TURNER'S REMARKS TO PRESS ON ARAB INVESTMENT IN CANADA FOLLOWING HIS SPRING TRIP TO MIDDLE EAST, EMBOFF ON MAY 15 SPOKE TO JOHN C. COLEMAN, ACTING CHIEF OF INTERNATIONAL ORGANIZATIONS, FINANCE DEPARTMENT. COLEMAN REPEATED TURNER'S COMMENTS (CONTAINED PARA 3 I REFTEL) AND ADDED A FEW ADDITIONAL INSIGHTS ON TURNER'S CURRENT THINKING ON FOREIGN INVESTMENT AND ON HIS DEPT'S CONCERN OVER LARGE PROJECTED CURRENT ACCOUNT DEFICIT. ACCORDING TO COLEMAN:

(A) TURNER'S ATTITUDE TOWARD FOREIGN INVESTMENT FROM OPEC COUNTRIES HAS CHANGED SOMEWHAT SINCE HIS COMMENTS TO PRESS LAST JANUARY. AT THAT TIME, HE WAS AFRAID THAT SUCH INVESTMENT MIGHT BE OVERWHELMING FOR CANADA AND PUSH ITS FOREIGN EXCHANGE RATES UPWARD, THUS PUTTING PRESSURE

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ON CANADIAN EXPORTS. IF OPEC CAPITAL FLOWED INTO

CANADA AT A RATE THAT WAS HIGHER THAN THEN PROJECTED CURRENT ACCOUNT DEFICIT OF C\$4 BILLION FOR 1975, CANADIAN DOLLAR COULD BECOME OVER-VALUED. HOWEVER, OPEC MONEY HAS NOT ARRIVED IN CANADA IN ANY SIGNIFICANT AMOUNTS DURING PAST FEW MONTHS; CANADIAN DOLLAR HAS DROPPED APPRECIABLY (NOW BELOW US\$.97, ITS LOWEST LEVEL IN FOUR YEARS); PROJECTED CURRENT ACCOUNT DEFICIT HAS WIDENED TO C\$5 BILLION; AND UNCERTAINTIES OF THE NEW YORK BOND MARKET HAVE PREVENTED PROVINCIAL GOVERNMENTS FROM FLOATING ISSUES THERE. THUS U.S. DOLLAR INFLOW HAS BEEN ADVERSELY AFFECTED AND TURNER AND OTHERS IN FINANCE ARE MORE RECEPTIVE TO OPEC CAPITAL.

(B) TURNER DID NOT DO A "HARD SELL" ON INVESTING IN CANADA WHEN HE VISITED KUWAIT, IRAN, SAUDI ARABIA AND ALGERAI, BUT HE DID TELL THEIR AUTHORITIES THAT CANADA "WELCOMED" THEIR INVESTMENT HERE.

(C) TURNER "PREVENTED" ITC MINISTER GILLESPIE FROM IMPLEMENTING PHASE TWO OF FOREIGN INVESTMENT REVIEW ACT LAST DECEMBER. (EMBOFF INFERRED THAT TURNER'S CONCERN ABOUT CURRENT ACCOUNT DEFICIT PROMPTED THIS ACTION SINCE COLEMAN'S STATEMENT ON FIRA CLOSELY FOLLOWED HIS COMMENTS ON DEFICIT). SECOND PHASE OF ACT PERTAINS TO GOC SCREENING OF NEW INVESTMENT, AND FOREIGN INVESTORS ARE CONCERNED ABOUT ITS IMPLEMENTATION.

(D) OPEC COUNTRIES COULD INVEST IN FEDERAL BONDS THROUGH BANKS IN CANADA, BUT BONDS COULD NOT BE HELD OUTSIDE COUNTRY. TURNER IS GIVING SOME THOUGHT TO CHANGING THIS REGULATION FOR SAME REASONS HE DROPPED HIS FOREIGN BORROWING GUIDELINES IN MARCH (SEE OTTAWA 754).

(E) IN OPEC COUNTRIES HE VISITED, TURNER WAS TOLD THAT THESE COUNTRIES HAD NO INTENTION OF TAKING OVER CANADIAN FIRMS. THEY CLAIMED THAT THEY DID NOT HAVE EXPERTISE TO MANAGE SUCH FIRMS AND WERE MAINLY LIMITED OFFICIAL USE

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INTERESTED IN SHORT AND MEDIUM TERM INVESTMENT. HOWEVER, THEY DID NOT UNDERSTAND CANADIAN LAW REGARDING FOREIGN INVESTMENT IN CANADA, AND TURNER IS WRITING SAUDI AND IRANIAN GOVERNMENTS TO EXPLAIN.

(F) COLEMAN DID NOT THINK THAT FOREIGN GOVERNMENTS, WHICH BOUGHT FEDERAL OR PROVINCIAL BONDS, WOULD BE SUBJECT TO GOC WITHHOLDING TAX ON INTEREST PAYMENTS.

IN ANY CASE, TURNER COULD MAKE AN EXCEPTION IN ORDER TO MAKE SUCH BONDS MORE ATTRACTIVE TO OPEC COUNTRIES.

2. AS IF TO UNDERScore COLEMAN'S REMARKS, GLOBE AND MAIL OF MAY 16 REPORTED THAT TURNER TOLD A BUSINESSMEN'S MEETING IN WELLAND ON MAY 15 THAT "THIS IS A GOOD YEAR TO ENCOURAGE FOREIGN INVESTMENT IN CANADA." WHEN ASKED WHAT GOC WAS DOING TO AID CAPITAL INFLOW, TURNER REPORTEDLY SAID THAT WITHHOLDING TAX EXEMPTION ON PROVINCIAL BONDS HAD BEEN EXTENDED FOR THREE YEARS AND THAT GOC WAS REVIEWING ALL STATUTES AND POLICIES AFFECTING FOREIGN INVESTMENT IN CANADA. HE REJECTED SUGGESTION THAT CANADA DEVALUE ITS DOLLAR IN ORDER TO MAKE EXPORTS MORE COMPETITIVE, AND HE SAID THAT HE HAD RECEIVED REPRESENTATIONS FROM BUSINESS THAT 15 PERCENT WITHHOLDING TAX ON DIVIDENDS AND INTEREST BE DROPPED IN ORDER TO ATTRACT MORE FOREIGN INVESTMENT.

3. COMMENT: IT HAS BEEN RUMORED FOR SOME TIME THAT TURNER AND GILLESPIE WERE AT ODDS OVER IMPLEMENTATION OF PHASE TWO OF THE INVESTMENT ACT. TURNER MAY HAVE CONVINCED HIS CABINET COLLEAGUES THAT PHASE TWO OPERATION SHOULD BE POSTPONED FOR A TIME SINCE IT MIGHT HINDER INVESTMENT FLOW, VITAL TO CANADIAN ECONOMIC INTERESTS. IN SPITE OF GILLESPIE'S STATEMENTS TO PRESS THAT HE WILL PROMULGATE PHASE TWO SOON (IN MID-APRIL HE SAID THAT PROVINCIAL AUTHORITIES WERE MEETING WITH FIRA REPRESENTATIVES TO WORK OUT FINAL ARRANGEMENTS), HE HAS NOT YET ACTED. RECENT NEWSPAPER ARTICLE, BASED ON INTERVIEWS WITH ITC REPRESENTATIVES STATIONED ABROAD, CONCLUDED THAT EC INVESTORS ARE UNEASY ABOUT FIRA'S OPERATIONS, AND PRESS REPORTS ON PM TRUDEAU'S RECENT EUROPEAN VISIT STRESSED CONCERNS LIMITED OFFICIAL USE

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OF INVESTORS THERE ABOUT CANADIAN FOREIGN INVESTMENT POLICY. ARGUMENT CAN BE MADE (AND HAS BEEN MADE BY GILLESPIE AND OTHERS) THAT UNCERTAINTY IS INHIBITING INVESTORS AND THAT IT BEST TO PROCLAIM PHASE TWO SO INVESTORS KNOW BETTER WHAT REQUIREMENTS ARE. EMBASSY STILL EXPECTS PHASE TWO TO BE PROMULGATED IN NEAR FUTURE SINCE LEGISLATION IS IN FORCE FOR OVER A YEAR AND GOC COMMITTED TO ITS IMPLEMENTATION. PORTER

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